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14. ABSTRACT

In the early 1980s, Mexico needed to overhaul its economic strategy. It had recently emerged from a period of economic prosperity and reshaped investments to benefit from the discovery of oil. When oil prices plummeted, Mexico was again forced to make sweeping economic changes, this time by lowering trade barriers. Subscribing to neoliberal trade reform in 1987, Mexico soon entered into more free trade agreements than any other country. The first, and most extensive, trade agreement it negotiated, the North American Free Trade Agreement (NAFTA), lowered trading barriers with the United States and Canada with the hope of economic convergence between the three countries. Mostly because of tax breaks and low labor costs, NAFTA achieved its stated goals, increasing foreign direct investment in Mexico and increasing trade in North America. However, because of Mexico's poor oversight, the country was unable to make a smooth transition from the import substitution economy to a neoliberal. For Mexico to experience the full potential of NAFTA after two decades of disaccumulation, it must undertake sweeping regulatory reform and substantially increase capital investment in science, technology, and infrastructure. If left unchecked, the agreement's destabilizing effects could prove more costly than any economic benefit realized.

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THE DISACCUMULATION OF MEXICO: Deals to be Had - But Not For Mexicans

by

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A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.

The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.

Signature: ____________________

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Abstract

In the early 1980s, Mexico needed to overhaul its economic strategy. It had recently emerged from a period of economic prosperity and reshaped investments to benefit from the discovery of oil. When oil prices plummeted, Mexico was again forced to make sweeping economic changes, this time by lowering trade barriers. Subscribing to neoliberal trade reform in 1987, Mexico soon entered into more free trade agreements than any other country. The first, and most extensive, trade agreement it negotiated, the North American Free Trade Agreement (NAFTA), lowered trading barriers with the United States and Canada with the hope of economic convergence between the three countries. Mostly because of tax breaks and low labor costs, NAFTA achieved its stated goals, increasing foreign direct investment in Mexico and increasing trade in North America. However, because of Mexico's poor oversight, the country was unable to make a smooth transition from the import substitution economy to a neoliberal one. For Mexico to experience the full potential of NAFTA after two decades of disaccumulation, it must undertake sweeping regulatory reform and substantially increase capital investment in science, technology, and infrastructure. If left unchecked, the agreement's destabilizing effects could prove more costly than any economic benefit realized.

INTRODUCTION

Without intervention, illicit activity along the 2,000-mile shared United States/Mexico border will worsen until it poses a direct threat to U.S. homeland. U.S. Northern Command's specific mission is homeland defense, civil support and security cooperation, and includes Mexico in its Area of Responsibility. Security cooperation is also nested in the National Military Strategy, which emphasizes a "Whole of Nation" approach to helping Mexico combat violent transnational criminal organizations. With an abundant supply of dispossessed youth, these criminal organizations are currently thriving. Mexico's neoliberal trade policy, of which the North American Free Trade Agreement (NAFTA) plays a dominant role, was quick to effect change in the numbers and types of job available, but remained unresponsive to the needs of a rapidly changing workforce. Neoliberal policies led to a low-cost labor export model that decimated Mexico's small and medium businesses. For Mexico to experience the full potential of NAFTA after two decades of disaccumulation, it must undertake sweeping regulatory reform and substantially increase capital investment in science, technology, and infrastructure.[1]

Left with few options after the 1982 oil crisis which left it unable to repay international loans, Mexico was understandably seduced into adopting neoliberal trade reform.[2] The poor implementation of NAFTA and Mexico's trade policy writ large (based on jobs, inflation, standard of living, and migration) has had, and will continue to have, far-reaching negative effects on the social and economic landscape of Mexico.

[1] Northern Command official website.; U.S. National Military Strategy.
[2] Quintanilla, "Energy Policy," 23.

NAFTA CRITICS

While there are many criteria used for measuring NAFTA's effectiveness, one of the most holistic counter-arguments uses Mexican emigration trends to laud its success. Some economists suggest that NAFTA has been successful because immigration has slowed. This argument is rooted in the economic convergence between Mexico and the U.S., one of NAFTA's goals. The argument's underlying principle contends that if similar economic opportunities exist in both countries, citizens would gain no advantage by migrating, thus would stay in their native country.[3]

Economists view the convergence between the U.S. and Mexican economies as beneficial to both countries. A more economically stable neighbor to the south would increase markets for U.S. goods, and mean more prosperity and less crime for Mexican citizens. For Mexico, convergence with the wealthiest economy in the world would obviously mean a substantial standard of living increase.[4]

The majority of Mexico's trade, about 74 percent of exports and 50 percent of imports, is with the U.S. Economists point out that because Mexico's economy depends so heavily on trade with the U.S. and that NAFTA dictates that trade relationship, then if the economies converge, NAFTA must be successful.[5]

The problem with this argument is that too many variables are involved to prove causality. Since 2000, Mexican emigration has increased by 42 percent to 6.65 million, and now accounts for 62 percent of all undocumented immigrants in the U.S. Remittances, the monies paid by these immigrants to support their families in Mexico, have swelled from $9 billion in 2001 to $26 billion in 2007 and represent the second highest source of revenue for

[3] Economist, "Now Let Us Praise."; Blecker, "NAFTA, Trade and Development."
[4] Economist, "Now Let Us Praise."
[5] Ibid.

Mexico behind oil exports. The increased security measures that limit migration opportunities in conjunction with the volume of remittances from immigrants already in the U.S., point to a possible state of equilibrium. This equilibrium, rather than economic convergence, more likely explains the recent trend.[6]

Whatever the causes of the recent immigration slowdown, economic convergence is not among them. Blecker and Esquivel point out that since NAFTA was implemented GDP per worker, GDP per capita, and purchasing power parity trends all suggest that Mexico's economy is slightly worse off than it was before NAFTA. In fact, there has been no economic convergence with the U.S. whatsoever, which directly refutes the counterargument. Blecker and Esquivel also state that Mexicans now have greater opportunities in the U.S. than before, which should lead to an increase in immigration. Empirical evidence therefore advises against using the correlation between economic convergence and immigration as the lone measure of performance for NAFTA's success.[7]

BACKGROUND

Setting NAFTA's outcomes aside for the moment to focus on the sequence of events that led to such neoliberal reform will provide important strategic context to help better understand the power dynamic in Mexico. Between 1930 and 1970, Mexico enjoyed a period of prosperity dubbed the "Mexican Miracle." During this time, the population quadrupled and the economy grew six-fold. Labor unions were strong and the government was committed to social protection, adding such language to the constitution. Mexico had a

[6] Delgado, "Labor Exports," 665; Camorota, "Shifting Tide,"; Blecker, "NAFTA, Trade and Development."
[7] Ibid.

protectionist mindset regarding its economy, based on import substitution industrialization, where imports were replaced by domestic production.[8]

When oil was discovered in the 1970s, Mexico's government took advantage of low international interest rates to heavily invest in the country's energy infrastructure. However, after the energy sector had become the cornerstone of the economy, in 1982 oil prices plummeted, causing Mexico to default on almost all of its international debt. Mexico was forced to make sweeping economic changes, this time by lowering trade barriers to attract foreign investment. Beginning these neoliberal trade reforms during the mid-1980s, Mexico now has 41 free trade agreements, more than any other country.[9]

In 1985 Mexico entered into the General Agreement on Tariffs and Trade and became a member of the Organization for Economic Cooperation and Development (OECD) . The most extensive trade agreement Mexico negotiated, the North American Free Trade Agreement, expanded trade with the United States and Canada with the hope of economic convergence between the three countries. Signed in 1992 and implemented in 1994, NAFTA's stated objectives were to: eliminate trade barriers, promote fair trade, protect intellectual property rights, create an effective instrument for implementation, and establish a framework for further cooperation.[10]

Mexico had compelling reasons to believe that opening its economy would help reverse the misfortunes it had suffered as a result of the recent energy and debt crises. In fact, there is no other trade policy more widely accepted by economists to have a positive impact on economic growth than free trade. Subscribing to the theories of comparative

[8] Torche, "Economic Crisis and Inequality," 88; Vargas, "Chronological Study," 245; Cypher, "Strategic Role," 128.
[9] Juan, "Energy Policy," 23; Risen, "Failed Promises," 17; Cypher, "Strategic Role," 128.
[10] Juan, "Energy Policy," 23; Cavanagh, "Happily Ever NAFTA," 61.

advantage and specialization, experts posit that in an international free market, countries that engage in trade are more prosperous than before.[11]

The challenge then for Mexico was to seamlessly transition from a protectionist economy, with deep rooted social programs and massive state-owned enterprises, to one of the most free economies in the world. At this, it failed. After the 1982 financial crisis hundreds of thousands of small and medium businesses went bankrupt. Faced with increasing foreign competition, a devaluated peso, and soaring inflation, entrepreneurs created the Entrepreneur Coordination Council to protect their interests from government intrusion. The Council severed its state alliances after the government nationalized the banking system, marking the rise in power and influence of private corporations.[12]

In 1987, Mexico engaged in wholesale privatization and liberalization of its state-owned enterprises and banks by divesting itself of almost all of its businesses. Adopting a free-market strategy, privatization was meant to increase competition and drive down prices. However, during this period of aggressive reform, consecutive administrations were plagued by a distinct loss of ethics beginning with President Miguel de la Madrid. When these enterprises changed ownership, commercial banks acted as the government's agents and catered to the special interests of those with capital. Vargas stated that "with the introduction of these reforms the Mexican State began to lose its capacity to function as a nation."[13] Later administrations accelerated these neoliberal reforms through the introduction of NAFTA, with the hope that foreign ownership would bolster social development and economic growth.[14]

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[11] Ramstad, "Free Versus Fair Trade," 5; Litonjua, "International Free Trade,".
[12] Vargas, "Chronological Study," 240.
[13] Ibid.
[14] Vargas, "Chronological Study," 240.

NAFTA supporters glorify the macroeconomic assessments of its performance in terms of Foreign Direct Investment (FDI) and Gross Domestic Product (GDP). From 1992 to 2001, U.S. FDI in Mexico rose from U.S.$12 billion to U.S.$54 billion. During that same period, trade flows from Mexico to the U.S. and Canada tripled. However, after China entered the World Trade Organization in 2001 many of the same opportunities Mexico made available to U.S. businesses were now accessible overseas. Burdened by overcomplicated business regulations in Mexico, many U.S. firms relocated to China. Despite the lure of China's cheaper labor, Mexico's U.S. and Canadian exports still accounted for 40 percent of its GDP in 2002.[15]

Microeconomics results, however, paint a much gloomier picture. According to the World Bank, during the first four years of NAFTA poverty rose by seven percent and real wages were down 18 percent. This disappointing performance mirrors the transfer of power from government institutions to corporate enterprises. While privatization's explicit goal was to increase economic competition, by mismanaging the transfer the government created privately owned monopolies out of public monopolies. Through covert negotiations with government officials, who were often times significant shareholders, these new businessmen, who were frequently major campaign contributors, attained multi-year noncompetition privileges. Instead of promoting competition, the government created legal barriers to entry for new business.[16]

The world's richest man, Carlos Slim, whose family holdings totaled more than five percent of Mexico's GDP in 2006, owns one of Mexico's most scandalous examples of these monopolies. Carlos, who purchased 20 percent of Telmex's stock and 51 percent of its

[15] Kose, "NAFTA Affected Mexican Economy?"; Cavanagh, "Happily Ever NAFTA," 62.
[16] Cavanagh, "Happily Ever NAFTA," 62; Vargas, "Chronological Study," 242.

voting rights in the early 1990s, now owns 92 percent of the country's phone lines and a 70 percent market share in mobile communications. Void of competition, telephone rates and fees in Mexico rank among the highest in the world. These family-owned monopolies, common in Mexico, are not accountable to outside shareholders and rarely promote any other interests than their own.[17]

Wise and Cypher argue that since the economic stagnation of the 1980s, large Mexican conglomerates pushed for open trade and coerced politicians into negotiating NAFTA so they could elude the legal hurdles that had been preventing them from accessing the massive U.S. market. According to neoclassical economic theory, conglomerate access to U.S. markets should have been a boon for Mexican businesses, encouraging both innovation and opportunity as the supply-chain broadened to meet the new demand. Through specialization and the learning-curve phenomenon, spin-off companies should have begun and technological depth should have followed. Instead, these large vertically integrated monopolies created their own tightly controlled suppliers internal to the organization. They refused to spend profits on research and development, opting instead to import items that required technology beyond their capability. This essentially led to no technological advancements in production or human capacity. Additionally, the incestuous supply chain accounted for 60 percent of industrial inputs. Thirty-five percent came from other large conglomerates or international high-tech corporations, leaving only five percent of inputs for medium and small businesses to supply. This represented a significant departure from the import substitution economy that helped Mexico prosper during the mid-1900s and gave rise to disaccumulation, or economic growth without labor productivity or goods production.[18]

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[17] Ibid.
[18] Cypher, "Strategic Role," 135; Livingston, "Disaccumulation?"

In addition to power-hungry monopolies squeezing lower and middle-class families, Mexican lands were being sold off to the highest bidder. After the 1917 Mexican Revolution, socialist president Lazaro Cardenas instituted massive land reform to recover properties that had been acquired by the rich and redistribute them to their original native owners in small plots. These ejido properties, which occupied half of Mexico's arable land by the time NAFTA was enacted, could not be bought or sold and carried no title. Passed from generation to generation, millions of these self-sustaining farms provided the rural population the means to existence.[19]

When the North American partners signed NAFTA in 1992, Mexico rewrote Article 27 of its Constitution, *modernizing* agrarian laws to allow for ejido lands to be sold or leased. Mexico's government argued that these smaller farms, averaging five to ten acres, could not compete with the much larger U.S. producers, whose farms averaged 250 acres. Land reforms also eliminated agriculture subsidies. While the NAFTA implementation plan scheduled incremental reductions over 15 years, the government ceased all subsidies within 30 months. These rural farmers no longer received credit, technical assistance or price support from the state. With this amendment and the Mexican Foreign Investment Law of 1993, non-residential property could then be 100 percent foreign-owned. Mexican farms were now on their own to compete in the international market against large U.S. farms.[20]

Mexico entered the U.S. agriculture market facing great odds. First, it was attempting to sell goods that it had no comparative advantage in. Additionally, since the 1980s, the U.S. had refined a high-volume, low-cost corporate model for its massive agriculture production. Unfortunately for competitors, the U.S. had a distinct comparative advantage that could not

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[19] Vargas, "Chronological Study," 242.
[20] Kose, "NAFTA Affected Mexican Economy?"; Vargas, "Chronological Study," 246.

be matched. That advantage was not land, climate, skill or technique, but government subsidies. The 1995 Agreement on Agriculture made food security a market relation and flooded the global market with below-cost U.S. food commodities. By removing trade barriers and offering high volumes of low-cost food, the 1994 Agreement lured countries into importing their food. This effectively eliminated all profits for many of Mexico's small farms and drove them out of business.[21]

The requirement to import, removal of subsidies, and elimination of the ejido was devastating for Mexico's farmers. Its staple food and part of Mexican culture, corn was grown on approximately 60 percent of Mexico's cultivated land by three million producers, 40 percent of all farmers. From 1994 to 2001, real corn prices fell by over 70 percent. The same farmer that earned over 700 pesos per month in 1994, earned only 200 seven years later. Yet, during the same period, the price of agriculture products actually rose. The price of corn tortillas, for example, increased by 50 percent. The government sent a clear message to the farmer that they needed to modernize or move. Living off the land was no longer an option.[22]

Enacting sweeping land reform and permissive trade measures, the Mexican government hoped to attract foreign investment and take advantage of U.S. markets. From the U.S. perspective, however, the ability to move operations to Mexico provided corporations with a significant tax advantage, looser regulations, and a wealth of low-cost, low-skilled labor. The maquiladora[23] population exploded. Between 1994, when NAFTA was implemented, and 2001, when China entered the WTO, maquiladoras expanded at an annual rate of 87 percent, topping out at near 3,700. In 1988, Mexican exports accounted for

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[21] Litonjua, "International Free Trade," 57.
[22] Kose, "NAFTA Affected Mexican Economy?"
[23] A maquiladora is a manufacturing branch of a company based in another country.

only 10 percent of its GDP, growing to 25 percent by the late 1990's. Ninety percent of all those exports were flowing to the U.S. Manufactured goods made up 90 percent of total exports. This essentially meant that 25 percent of Mexico's GDP was comprised of goods produced in maquiladoras. This is bad news for Mexico, who enjoys very little economic benefit from these maquiladoras. Wise and Covarrubias point out that the only benefit to the economy from these Transnational Corporations is in direct labor wages, which, incidentally, in 2002 were 12 percent below their 1994 levels.[24]

Unencumbered by labor unions or high minimum wages, it is clear that with NAFTA, Mexico's comparative advantage is its labor force. During the period of rapid maquiladora growth, these jobs paid 52 percent less than non-maquiladora jobs at the same time that the cost of living increased along Mexico's northern border where these maquiladoras were concentrated. Not a part of Mexico's National Development Strategy, these maquiladoras engaged in destructive competition by exporting their low-cost labor.[25]

In NAFTA, Mexican negotiators created an environment where third generation farmers could no longer sustain themselves, small and medium businesses were driven out of competition, and the low-income worker could not keep pace with the rising cost of living. With poverty on the rise, the monumental changes in economic policy were met by even larger waves of emigration. The U.N. estimated that between 2000 and 2005 Mexico's annual emigration surpassed both China's and India's at 400,000; 390,000; and 280,000 respectively. Ironically, NAFTA was supposed to stem emigration through U.S./Mexico economic convergence, not make Mexico the world leader in it.[26]

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[24] Cypher, "Strategic Role," 135; Delgado, "Labor Exports." 665.
[25] Delgado, "Labor Exports." 665.
[26] Delgado, "Labor Exports." 665.

Job growth could not keep pace with the labor supply. Experts agreed that to keep unemployment from rising, 1.2 million jobs had to be generated each year. During President Fox's six-year term, however, only 240,000 permanent jobs and 640,000 temporary jobs were created. That meant 6.5 million Mexicans, or 89 percent of all prospective employees, had to choose either informal employment, with low pay and no benefits, or emigration.[27]

The mass exodus, both in terms of emigration to the U.S. and migration to the cities, was vital to the rural economy. Remittances from these migrants accounted for approximately 40 percent of all rural income in 2003. In 2004, there were 26.6 million Mexicans living in the U.S. The following year, the Bank of Mexico reported remittances in the amount of U.S.$20 billion, reaching parity with both maquiladora exports and oil exports. According to the World Bank, by 1998, 82 percent of rural Mexico was living in poverty, up from 79 percent just four years prior. Because of the horrid economic conditions, these remittances were essential for the survival of those who remained in rural Mexico. But, emigration itself caused additional problems.[28]

Between migration and emigration, depopulation is a growing concern in Mexican municipalities. From 2000 to 2005 one out of every three of the country's 2,435 municipalities reported negative growth associated with a lack of opportunity. In 2000, 96 percent of the municipalities reported some form of international migration. The brain drain phenomenon is emerging and is also a growing concern in Mexico. Of the 385,000 Mexican-born U.S. population with university degrees, 86,000 have postgraduate qualifications and 10,000 have doctorates degrees. Furthermore, 52 percent of Mexicans over the age of 15 and living in the U.S. have achieved a level of education beyond high school while the same

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[27] Ibid.
[28] Sanchez, "Mexico Agricultural Situation."; Cypher, "Strategic Role," 131; Cavanagh, "Happily Ever NAFTA," 58.

holds true for only 28 percent of a similar cross section still living in Mexico. The harm of losing the best qualified to emigration is obvious. The cost of this lost investment is more obscure and, while difficult to measure, clearly places economic convergence further out of reach.[29]

Many economists argue that NAFTA has had the exact opposite effect on U.S./Mexico economic convergence than what the authors intended. In his 2008 article, Clay Risen suggests that while other developing countries like Brazil, China, and India have enjoyed near double-digit growth during the last decade, Mexico's growth has been stymied by its failure to improve regulatory and physical infrastructure. Instead of bringing the economies closer together, the disparity has actually grown by 10 percent. This is partly because the low-cost labor export model in the maquiladora-dense border region remains isolated from the rest of the country, which enjoys virtually no benefit from international economic contact.[30]

Domestic inequality has also plagued the country since the introduction of NAFTA. Government policies favoring monopolies removed small and medium businesses from competition; land reform drove farmers off of their ejido properties; and maquiladoras created a low-cost labor export model. The government offered no protection for labor unions. Trade restrictions in agriculture that were supposed to be phased out over 15 years were gone in 30 months. While the rich gained more wealth, the poor had to take drastic measures to counter suppressed minimum wages and rising inflation. Even after improvements, real wages in factories in 2001 were lower than they were before NAFTA. Between 1994-1996 real wages fell by 26 percent while inflation soared from seven percent

[29] Cypher, "Strategic Role," 132.
[30] Risen, "Failed Promises," 17.

in 1994, to 55 percent in 1995, to 28 percent in 1996. According to the World Bank, overall poverty in Mexican rose from 51 percent in 1994 to 58 percent in 1998. Economist and mathematician Henri Theil developed a method for measuring economic inequality based on the standard deviation of wealth. The Theil index also takes into account capital policy changes, domestic finances, and the stock market index. The University of Texas Inequality Project used this index to classify 28 developing countries and argued that economic liberalization leads to inequality. At 19 percent, Mexico statistically ranked three times worse on the Theil index than the next fully liberalized country. Many classic economists would argue that given the lack of oversight during these liberal policy changes, Mexico's inequality should have been anticipated.[31]

John R. Commons, an American Institutional Economist who advocated for fair, instead of free, trade argued that laws should mandate transactions between employees and employers to ensure social standards remained fair, order-preserving, reasonable, and customary. He suggested that while corporations barter with property, individuals, who have fewer resources, barter with their liberty and personal risk. Unrestrained, businesses would engage in destructive competition, eventually pulling the entire industry down to the level of the least conscientious. Workers would be marginalized to the maximum extent allowed by law. In Mexico's case, where Multinational Corporations had undue influence over international trade agreements, social protections suffered.[32]

According to M. Litonjua, the benefits of free trade are tainted by political and economic power at the expense of a large innocent minority. In this sense, NAFTA is a legal institution that trumps domestic attempts to regulate social and environmental activities.

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[31] Risen, "Failed Promises," 17; Sanchez, "Mexico Agricultural Situation."; Cavanagh, "Happily Ever NAFTA," 62; Harvey, "Neoliberalism and Economic Welfare," 363.
[32] Chasse, "Commons Proposal," 1123; Farmer, "Theory and Practice," 11.

Large corporations, ostensibly more concerned with balance sheets than social justice, have effectively reduced state regulatory powers in order to protect investors. Representatives from 30 powerful businesses such as Walmart, Merk, GE, Lockheed Martin, and UPS that make up the North American Competitiveness Council serve as one example of the corporate power grab. This council is a tri-nation working group that heavily influences economic, political and social issues without participation from or authorization of any of the three NAFTA governments. Opponents of the council, which usually operates behind closed doors, argue that it will only benefit the elite, widening the inequality gap at the expense of laborers.[33]

Some of NAFTA's most brazen language allows foreign investors of a signatory country to directly sue the government of the same or another signatory country over any act that may devalue their investment. There have been related lawsuits in each of the three countries. In one case, when a Mexican municipality prevented a California company from using what the municipality claimed to be environmentally sensitive land, the presiding court ordered the Government of Mexico to pay U.S.$17 million in restitution. The creative ways this law has been used in each of the NAFTA countries represents a significant departure from its original intent.[34]

[33] Litonjua, "International Free Trade," 57; Barkan, "Geographic Analysis," 592; . Hussain, "Crossroads."
[34] Cavanagh, "Happily Ever NAFTA," 59.

CONCLUSIONS and RECOMMENDATIONS

NAFTA will continue to provide Mexico with a wealth of economic opportunities that it would not otherwise have. Unfortunately, corrupt politicians squandered these opportunities during the economic transition from an import substitution model to a neoliberal one, when poor policies and weak oversight caused microeconomics to suffer at the hand of macroeconomics. Mexico continues to suffer from disaccumulation - growth without increasing either goods or labor production. As the poverty threshold inches higher into the middle class, a dispossessed workforce has been forced to turn to vertically-integrated monopolies, maquiladoras engaged in destructive competition, the informal job sector or the United States. Incredibly, remittances from the 27 million Mexican emigrants living in the U.S. provide nearly one-third of the country's GDP. Without this support, Mexico's marginalized population would suffer exponentially.[35]

Since the volatile period of transition from a welfare state to a neoliberal one, a lack of ethics and principles in its political institutions has plagued Mexico. There will be no better alternative for the millions of dispossessed Mexicans until their leaders break from their corrupt ways. Fortunately, Mexico's current president, Filipe Calderon, is willing to challenge his opposition and pursue legal and regulatory reform.[36]

The Mexican administration's foremost challenge is to halt disaccumulation. Privatization turned state-run monopolies into private monopolies and has purged the country of innovation. The regulatory framework that allows these monopolies has created barriers to entry and decimated Mexico's small and medium enterprises. The government must

[35] Cypher, "Strategic Role," 131.
[36] Vargas, "Chronological Study," 239; Risen, "Failed Promises," 20.

dismantle these monopolies and reform regulations in order to revive healthy competition in a socially conscious environment.[37]

Historically, Mexico has underfunded education, particularly in science and technology. According to the Organization for Economic Cooperation and Development, in 2007, Mexico contributed only 0.4 percent of its GDP to funding science and technology, ranking last among all OECD countries. After 40 years of economic protection under an import substitution model, Mexico's appreciation for innovation has been further stymied by monopolies and a low-cost labor export model. At the turn of the century Mexican companies contributed only 20 percent of their gross expenditures to research and development. By comparison, Brazilian and Korean companies spent 40 and 70 percent, respectively. This lack of innovation is reflected in Mexico's extremely low patent application rate. Mexico must significantly increase capital investments in science and technology to establish a competitive economy.[38]

Improvements in technology and innovation will also bring new capabilities to the maquiladoras. A more highly-skilled workforce will attract new manufacturing sectors, increase average wages, and offer more opportunities to Mexico's educated workforce that has statistically been more inclined to emigrate. Additional sectors in the maquiladora-rich north, combined with incentives for small and medium businesses, will create a learning effect and stimulate more spin-offs. Small and medium business generation is critical to correct the destructive, low-cost labor export model in maquiladoras and the vertically integrated subsidiaries that exist within monopolies.[39]

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[37] Vargas, "Chronological Study," 251.
[38] Gonzalez, "Innovation Cha-Cha," 53.
[39] Risen, "Failed Promises," 20.

To ensure the benefits from these new investments reach more than just the municipalities along the northern border, Mexico needs to overhaul its transportation infrastructure. Fortunately, this is exactly what President Calderon is attempting to do. Thus far he has committed U.S.$37 billion to rails, roads, energy plants, and to both sea and air ports. Strong opposition and government corruption, however, will challenge Calderon's aggressive plan.[40]

Finally, if Mexico is going to benefit from a global market, it must change how it measures success. Increasing foreign investment and trade may be a means to an end, but increasing the standard of living *is* that end. So long as Mexico's leaders disregard this fact, poverty will continue to rise alongside domestic and international economic divergence. As far as the U.S. role in Mexico, history has shown that an exogenous force has never been successful at socioeconomic development. However, since a successful Mexico contributes to a stable North America, U.S. policy should show preference towards that economic relationship. Ultimately, only domestic social pressure will be able to force the long-term socioeconomic development necessary to ensure a stable and secure Mexico.[41]

[40] Risen, "Failed Promises," 20.
[41] Ibid.

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